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SUBJECT: U.S. ASSISTANCE GROUP MEETING WITH CENTRAL BANK ACTING
CHAIRMAN ABYLOV

Summary

1. (SBU) Under the umbrella of EUR/ACE Coordinator Adams' visit, USAID Regional Director Crowley raised program implementation issues with Central Bank of Turkmenistan (CBT) Chairman Geldymurad Abylov on January 30. Abylov stated that the CBT was working to prepare for introduction of national accounting standards in conformity with International Financial Reporting Standards (IFRS), and had already trained its own staff to these standards. To Crowley's offer of exchange opportunities on micro-credit and agricultural financing, Abylov replied matter-of-factly that Turkmenistan already sent a stream of personnel abroad for such training. In response to concerns raised by Crowley, Abylov contentiously denied that the CBT had taken any steps to cause local banks to restrict USAID's implementers' ability to make hard-currency withdrawals. End Summary.

Abylov: CBT Does Not Need USAID Training Assistance

2. (U) Abylov was flanked during the meeting by his main deputies. Crowley noted that USAID wanted to continue its support for IFRS training for CBT staff and other professionals, but the Ministry of Education recently refused to approve the curriculum for training courses because there was no current IFRS legislation. (Note: The Ministry of Economy and Finance also declined to become involved in this issue in a January 31 septel meeting with the delegation. End Note.) Abylov noted that CBT already trained its staff to IFRS without external assistance.

3. (U) Crowley said that USAID was also eager for cooperation in increasing access to credit for farmers. USAID recently designed a "Community Connection" program on this subject and hoped for participation by CBT staff. After a CBT staffer had told USAID the day before that CBT staff would not participate in the program, Abylov surprisingly announced that a participant would, in fact, join the trip. The participant he referred to was not actually a CBT employee, but rather the head of the credit department in the state agricultural bank, Dayhan Bank.

¶4. (U) Abylov offered a quick overview of Turkmenistan's bank sector: 11 banks, of which 5 were state, 3 joint-stock ventures, 2 foreign-owned private, and 1 that worked solely with commercial mortgages. He noted that "we are currently preparing our employees to take the test on IFRS." (Note: This reference is to a USAID-funded testing and certification program. CBT staff sits for the exams, but do not receive certification due to current legislation that prohibits state employees from joining professional associations, a criterion for certification. End Note.) "Thank you for your invitation (for such training); if we have the need, we will contact you," he then said with deliberate politeness. As for agricultural financing, 50 of the nation's total 121 bank branches occupied themselves by giving credit to farmers; agricultural lending mechanisms were well-practiced. The CBT had already sent the chief of its credit operations to the United States. Likewise, its banking and supervision department was due to travel to the U.S. "soon." (Note: On February 2, the Ministry of Foreign Affairs advised Embassy that three CBT employees would participate in the August 2007 International Visitors program on Banking Supervision/Intellectual Property Rights and U.S. Financial Security. End Note.) Additionally, each year four or five personnel received training in Switzerland. Microcredit featured in virtually all these meetings, trips and courses, and the CBT worked with the International Monetary Fund (IMF), World Bank, and European Bank for Reconstruction and Development (EBRD) on these issues. In all, maybe a hundred specialists went abroad for training over the past year, in areas like cashier operations, legal functions, and bank supervision, Abylov reiterated.

Abylov Denies Dollar Withdrawal Limits

¶5. (SBU) Crowley referred to recent financial "difficulties" that several USAID implementers recently had encountered. These

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implementers had reported that, since late 2006, their local bank, the National Bank of Pakistan, limited cash withdrawals to \$10,000 a month, plus unlimited amounts for salaries and travel expenses. (Note: These limits mostly affect implementers providing grants to local organizations. End Note.) In implementing these limits, the bank had cited a new instruction from the Central Bank. Crowley asked whether the bank perhaps was misinterpreting regulations. Abylov looked surprised, then indignant. He vehemently claimed that there was never any such CBT resolution or instruction about a limit, and the bank management in question had never asked him about it. Nor, Abylov continued without prompting, was there a question of dollars being in limited supply. "Whenever a bank wants to get money, we give it. If you wanted three billion, we could give it to you." (Note: Abylov's unprompted comments on liquidity follow his castigation by Acting President Berdimuhammedov in a January 27 Cabinet of Ministers meeting for failing to pay state employees on time. End Note.)

CBT Hints at Suspensions

¶6. (SBU) Abylov then admitted that the CBT had indeed temporarily stopped dollar withdrawals at the very end of 2006 "because of the mourning period (for Niyazov's death)." But, he added, this was purely a short-lived measure taken in the interests of stability and seasonal monetary control. Then he and his deputy commented that the amounts being requested by the implementers during the mourning period were remarkably high -- more than 10 times the typical monthly pattern, they claimed. "Why do you need withdrawal in dollars (as opposed to manat)?" they asked. With the exception of salaries for program staff, why should USAID not simply pay its expenses via standard electronic transfers, the deputy queried. The Chairman's advisor also stated that the CBT did not have full information on the grants provided by USAID's implementers, implicitly suggesting something improper in their requests for cash.

¶7. (SBU) USAID Country Representative Moretz clarified that all grants made by USAID's partners were previously registered with the State Agency for Foreign Investment and currently at the Ministry of

Economy and Finance. As a result, all information about the objectives and funding levels was on record with the Government of Turkmenistan. After the Chairman excused himself for a phone call, Moretz clarified that USAID's partners' difficulties began well before the mourning period and added that the National Bank of Pakistan referred to a Central Bank decree of November 20 -- a month before Niyazov's death -- as the reason for restricting withdrawals.

"Everyone Knows What Everyone Else Is Doing"

18. (SBU) Growing animated, Abylov again repeated that the bank managers had not contacted him until very late December. He heatedly offered to summon them "in five minutes" in order to thrash out who was telling the truth. "You said we held up your money. We never did." Referring to a separate regulation governing foreign exchange operations by banks, Abylov insisted that the instructions were only for individuals. (Note: This interpretation of Instruction 5490 from 2002 is consistent with USAID's understanding, but does not diminish the fact that the National Bank of Pakistan continues to refer to this instruction to limit monthly withdrawals by organizations. End Note.) It was necessary to be transparent, Abylov went on, remaining agitated. "We should observe the rules of the nations where we reside. I don't want to accuse you, but Ashgabat is a small town where everyone knows what everyone else is doing." Rather than resolve the issue on the spot, the USAID Country Representative suggested that a future meeting to discuss this issue further would be most productive. (Note: During the heated exchange, the MFA Americas Desk Chief Bashimov made gestures to the USAID Representative not to respond to Abylov's challenge for an instant meeting. End Note.)

Comment

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19. (SBU) Although it was good that MFA facilitation of Coordinator Adams' schedule produced this long-requested meeting with the CBT, the tone and content of the meeting itself were not encouraging. Judging from Abylov's forthright words, the CBT does not appear interested in receiving USG technical assistance. His approach mirrors that of past meetings and is consistent with a general cooling of USAID's previously productive relations with the CBT since the ouster of the then-Chairwoman in May 2005. Given Abylov's adamant denial that the CBT had put limits on monthly cash-dollar withdrawals and the confusing references to two separate instructions to banks, post will review details of the bank withdrawal issue with the implementers before meeting again with the CBT.

110. (SBU) Abylov's comment about "knowing what everyone is doing" was likely a reference to USAID contractors' use of dollar withdrawals to gain access to the unofficial exchange rate, currently around 24,000:1. The 1993 bilateral agreement allows for funds conversion at the rate "providing the largest number of units...lawful for any commercial or other transaction;" if the CBT attempts to force USG implementers to use the official exchange rate of 5,000:1, it would greatly reduce the level of assistance funds that reach the people. Unsaid, but also implicit in the rather intense questioning from the Chairman about December's alleged withdrawal "spike" was a suspicion that the latter might have been linked to post-Niyazov political plotting.

111. (SBU) Implementers' problems and Abylov's reputed competence both aside, his almost complete lack of experience in modern banking practices demonstrate both how low the banking bar is in Turkmenistan and how far its banking system has to go to get anywhere near accepted international norms.

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